

SUBCOMMITTEE NO. 4

Agenda

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Upon Adjournment of Senate Governmental Organization Committee
Room 3191

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2720 California Highway Patrol

The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for state employees and property. The Governor's Budget proposes \$1.2 billion in total expenditures for the CHP. This amount is a decrease of \$4.6 million or 0.4 percent from current year expenditures. The majority of funding for support of the CHP is from the Motor Vehicle Account (MVA), which is proposed at \$1 billion (84 percent of the total support budget).

CHP Funding Sources					
Funding Source	2001-02	2002-03	2003-04	Change 02-03 to 03-04	% Change 02-03 to 03-04
General Fund	5	-	-	0	0.0
State Emergency Telephone Number Account	-	-	41,041	41,041	100.0
State Highway Account	24,574	28,296	43,787	15,491	54.7
Motor Vehicle Account	949,497	1,126,049	1,039,729	-86,320	-7.7
Less funding provided by Federal Funds	-	-94,601	-74,581	20,020	-21.2
Motor Carrier Permit Fund	1,426	1,799	-	-1,799	-100.0
Motor Carrier Safety Imp. Fund	1,028	1,179	1,190	11	0.9
California Motorcyclist Safety Fund	1,123	1,380	1,573	193	14.0
Federal Trust fund	9,274	106,532	86,658	-19,874	-18.7
Hazardous Substance Account	6	200	208	8	4.0
Asset Forfeiture Account	770	2,002	2,087	85	4.2
California Peace Officer Memorial Fund	216	400	400	0	0.0
Reimbursements	64,371	63,309	58,892	-4,417	-7.0
Public Safety Surcharge Fund	-	-	30,940	30,940	100.0
Totals, All Funds	1,052,290	1,236,545	1,231,924	-4,621	0.4

CHP Program Expenditures					
Program	Expenditures (dollars in thousands)				Percent Change
	2001-02	2002-03	2003-04	Change	
Traffic Management	925,932	1,069,983	1,067,120	-2,863	0.3
Regulation and Inspection	100,865	136,774	134,588	-2,186	1.6
Vehicle Ownership Security	25,493	29,788	30,216	428	1.4
Administration	113,051	139,891	145,848	5,957	4.3
Distributed Administration	-113,051	-139,891	-145,848	-5,957	-
Totals, Programs	1,052,290	1,236,545	1,231,924	-4,621	0.4

Issues

Motor Vehicle Account Expenditures Continue to Outpace Available Revenues

Background: The Motor Vehicle Account (MVA) provides the primary source of revenue for all CHP expenditures. The budget proposes \$1.2 billion in expenditures for CHP; of this amount the MVA will contribute approximately \$1 billion (84 percent) of total funding. The MVA receives most of its revenues from vehicle registration and driver license fees. The MVA also provides funding for the Department of Motor Vehicles (\$389 million), the Air Resources Board (\$74 million), the Department of Justice (\$20 million), and other various departments.

The budget proposes approximately \$163 million (\$333 million in 2004-2005) in additional revenue for the MVA to address a projected shortfall in the account (these fee increases will be discussed under item 2740-Department of Motor Vehicles). For the second consecutive year the Administration has proposed revenue enhancements to avert a projected shortfall in the MVA.

The Legislative Analyst (LAO) estimates that over the past five years MVA expenditures have increased by 40 percent, while revenues have increased by only 13 percent. As the primary recipient of MVA funds, CHP's expenditure increases are a major cause of additional pressures on the MVA. For example, the MVA is the fund source for CHP's homeland security expenditures. Although the budget assumes approximately \$170 million in federal funds for homeland security costs, the state has yet to receive these funds and the MVA has to fund these expenditures.

Another increase in expenditures has been in the area of CHP staff benefits and salaries. Under the current M.O.U. with uniformed staff, the state is required to pay both the employer's and employees' retirement contribution. According to the LAO, staff benefits (retirement, health insurance, workers compensation, etc) have increased by \$177 million since the 2000-2001 fiscal year. The LAO also estimates that salaries for both uniformed and non-uniformed staff have increased by \$51 million since the 2000-2001 fiscal year. The LAO believes that staff salaries and benefits could increase by an additional \$100 million in the budget-year. The LAO argues that the increase may occur for two reasons:

- CalPERS expects retirement rates to increase in 2003-2004. The LAO believes this increase could be in the range of \$60 million.
- The current M.O.U. with CHP calls for a 6.01 percent and 5 percent pay raise for uniformed and non-uniformed staff effective July 2003. The LAO estimates that these raises would require an additional \$40 million in the budget-year.

Issue: In response to growing pressures on the MVA, the Administration is proposing various actions to shift funds for CHP or provide additional revenues separate from the MVA. In total, these proposals are intended to provide CHP with approximately \$88 million in additional funding. The following issues highlight these proposals and identify the subcommittee staff and LAO recommendations.

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1. **Rate Increase for the State Emergency Telephone Number Account (911 Account).** Current law provides for a surcharge of up to 0.75 percent on intrastate calls. These funds may be used for the following purposes:
- To pay refunds.
 - Administrative costs of the Board of Equalization and DGS for administering the surcharge.
 - Bills submitted to DGS by service suppliers or communications equipment companies for the installation and ongoing expenses for the 911 emergency phone number system.
 - Claims of local agencies for approved incremental costs related to the 911 emergency phone number system.

The surcharge has a logical, direct relationship between the use or purposes and the persons from whom it was collected. Therefore, the revenues collected are fees and not the proceeds of taxes.

Issue: The budget proposes trailer bill language to increase the surcharge on intrastate calls from 0.72 percent to one percent. This will increase revenues to the State Emergency Telephone Number account by \$46.6 million (\$181.2 million total in 2003-2004). Of this amount, CHP will receive an additional \$41 million (CHP currently receives \$4 million for its 911 response activities). Additionally the Department of Health Services and the Department of Forestry and Fire Protection will receive \$3.6 million and \$2.6 million respectively from this revenue increase.

In its current form the trailer bill is considered a “tax” and not a “fee” because there is not a direct relationship between the use or purposes of the account and the persons from whom it was collected. The trailer bill language is considered a “change in state taxes for the purpose of increasing state revenues” and would require a two-thirds vote. The Administration has informed subcommittee staff that the language will be amended to exclude the allocations to Health Services and Forestry and Fire Protection in an attempt to change the bill to a “fee” proposal.

LAO Recommendation: The LAO argues that the proposal is not justified because the proposed activities do not relate directly to maintaining and operating the 911 telephone system. The LAO recommends the subcommittee deny this proposal.

Staff Recommendation: Although the majority of revenues generated from this proposal will be allocated to CHP, this item will also be considered when the subcommittee hears the Department of General Services’ (DGS) budget later this week.

Subcommittee staff has developed the following recommendations for the subcommittee to consider.

- **Without prejudice to the overall 911 surcharge proposal (which will be considered at the DGS hearing later this week), delete all expenditures for CHP from the Emergency Telephone Number Account and shift the expenditures to the Public Safety Surcharge Account (PSS).** The PSS is discussed in further detail under the next issue.
- **Withhold action on this item until the May Revision.** The subcommittee may want to allow the Administration to work out the outstanding issues with this proposal, including the “tax versus fee” discussion.

These recommendations are intended to avert any program deficiencies and provide the necessary revenues for CHP in the 2003-2004 budget year.

Action:

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2. Creation of a New Public Safety Surcharge Account

Background: The budget proposes the creation of a new Public Safety Surcharge Account (PSS) to provide an ongoing source of funding for CHP's protective and security services. The budget proposes to generate approximately \$32 million in revenue from the PSS in 2003-2004. The PSS would require an additional surcharge on intrastate telephone calls (separate from the existing 911 surcharge). Specific details of the Administration's proposal include the following:

- Establishes an initial rate of 0.25 percent in the budget year, and a permanent cap of 2 percent.
- Allows CHP to determine and establish the surcharge rate for each fiscal year. The trailer bill language requires the Department of Finance to approve CHP's surcharge rate determination.
- Establishes a maximum 10 percent reserve in the PSS.

An important point to identify is that Article XIX of the Constitutions prohibits the use of Motor Vehicle Account funds for non-transportation and traffic enforcement activities. The LAO estimates that CHP's program expenditures unrelated to traffic safety and enforcement are approximately \$125 million. CHP's need for additional revenues to fund the department's increasing protective services and security responsibilities is justifiable. Subcommittee staff agree with the concept of providing a stable and ongoing revenue stream for CHP's non-transportation expenditures.

LAO Recommendation: The LAO does not believe that the PSS proposal creates a nexus between the surcharge and the programs that will be funded from this account. If the Legislature approves the PSS, the LAO recommends that the authority to establish the rate be shifted to the Board of Equalization (B.O.E.), and limit these funds for specific, non-transportation activities (The B.O.E. currently sets the rate for the 911 Account surcharge).

Staff Recommendation: Including the additional revenues from the Emergency Telephone Account proposal and the PSS, CHP's budget assumes \$72 million in funding for the budget year. Subcommittee staff agree with the Administration's to provide ongoing revenues to CHP for protective and security services. **To that end, staff recommends the following:**

- **Approve the PSS proposal with the following changes: 1) Shift the surcharge rate authority from CHP to the Board of Equalization, 2) Shift all CHP expenditures from the 911 account to the PSS, 3) Authorize the BOE to establish an appropriate PSS rate to allow CHP to receive the necessary revenues in the budget year (\$72 million). In reference to point number 3, the intent of the recommendation is to allow the BOE to establish the rate as necessary, but allow the Legislature to maintain oversight of the account by authorizing the expenditure authority in each subsequent budget act.**

Alternatively the subcommittee may wish to defer action on this item until after the May Revision. As the Administration is addressing concerns with the PSS and 911 account proposals, it is likely that changes will be made at the May Revision.

Action:

3. State Highway Account Support Increase for CHP

Background: The budget proposes to increase support from the State Highway Account (SHA) by \$16 million in the 2003-2004 budget year (\$19 million ongoing). The current year budget authorizes \$28 million from the SHA for CHP's truck inspection activities. According to the LAO, the Administration believes the SHA should fund CHP for activities relating to highway efficiency. The Administration indicates that CHP officers spend approximately 4.2 percent of their time performing these types of activities.

LAO Recommendation: The LAO raises two issues with this proposal:

- The Analyst is concerned that accounting and paying for CHP officer's time (as proposed) could lead to a fragmented funding structure. The LAO believes that the ongoing process of tracking the amount of time officers spend performing specific duties, and then charging a proportional amount to the appropriate account creates a complicated and unstable system of budgeting.
- The LAO argues that the Administration cannot substantiate the determination that officers spend 4.2 percent of their time on traffic flow activities.

Staff Recommendation: The subcommittee may wish to have CHP respond to the concerns raised by the LAO. **If the subcommittee is satisfied with the department's response, staff recommends approval of the proposal.**

Action:

Other Budget Proposals

Staff Recommendation: No other issues have been raised with the department's requests. Staff recommends the subcommittee approve the remaining items in CHP's budget as proposed. Staff also recommends the subcommittee request a CHP representative remain present for the DMV portion of the hearing to answer questions regarding the Truck Weight Fee proposal.

Action:

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale and disposal of vehicles. Over 50 percent of the proposed budget is for the Vessel/Vehicle Identification and Compliance Program, which establishes identification and ownership of vehicles of California residents and assures compliance with various laws and programs. DMV also issues personal identification cards, administers driver safety and control programs, and provides consumer protection services.

The budget proposes total expenditures of \$681.9 million (\$1.1 million, General Fund), a decrease of \$4.2 million (0.6 percent) from the current-year budget.

Department of Motor Vehicles					
Funding Source	<i>(dollars in thousands)</i>			Change	% Change
	2001-02	2002-03	2003-04	02-03 to 03-04	02-03 to 03-04
General Fund	2,694	1,598	1,114	-484	-30.3
State Highway Account	42,986	41,005	59,727	18,722	45.7
Motor Vehicle Account	351,276	355,297	389,272	33,975	9.6
New Motor Vehicle Board Account	1,396	1,703	1,708	5	0.3
Motor Vehicle License Fee Account, Transportation Tax Fund	277,390	269,609	213,079	-56,530	-21.0
Motor Carriers Permit Fund	2,708	3,033	-	-3,033	-100.0
Harbors and Watercraft Revolving Fund	4,513	2,066	4,503	2,437	118.0
Federal Trust Fund	30	-	-	0	0.0
Reimbursements	11,820	11,859	12,524	665	5.6
Total	694,813	686,170	681,927	-4,243	-0.6

Department of Motor Vehicles Program Expenditures						
Program	<i>Expenditures (dollars in thousands)</i>				Percent	
	2001-02	2002-03	2003-04	Change	Change	
Vehicle/Vessel Identification and Compliance	392,834	387,302	384,223	-3,079	-0.8	
Driver Licensing and Personal Identification	176,550	172,722	172,071	-651	-0.4	
Driver Safety	87,488	87,670	87,134	-536	-0.6	
Occupational Licensing and Investigative Services	36,545	36,773	36,791	18	0.0	
New Motor Vehicle Board	1,396	1,703	1,708	5	0.3	
Administration	81,748	84,231	81,517	-2,714	-3.2	
Distributed Administration	-81,748	-84,231	-81,517	2,714	-3.2	
Total	694,813	686,170	681,927	-4,243	-0.6	

Issues

1. ***Loopholes in Truck Weight Fee Program Results in Significant Revenue Loss for State Highway Account.***

Background: Senate Bill 2084 (Polanco, Chapter 861, Statutes of 2000) revamped the commercial vehicle registration system by authorizing the state to convert from an unladen weight system to a gross vehicle weight system (GVW), and by initiating a permanent trailer identification program (PTI). As a member of the International Registration Program (IRP), California is authorized to collect registration fees for commercial trucks that operate on an inter-state basis. Under the IRP, the 48 contiguous states, the District of Columbia, and three Canadian Provinces collect registration fees for trucks based in their jurisdictions and then share those fees based on the amount a particular truck operates in each jurisdiction.

Prior to SB 2084, California registered commercial trucks by using an unladen (empty) weight system and charging vehicle license fees (VLF) on trailers and semitrailers. California was the only member of the IRP to use the unladen weight system, and eventually the IRP members required California to comply with their fee systems. The Legislature approved SB 2084 because the state was in jeopardy of losing its membership in the IRP and the ability to collect and share commercial vehicle share fees with other IRP members.

SB 2084 was agreed to by all relevant parties, including DMV, Caltrans, the California Farm Bureau, and the commercial trucking industry. Under the GVW, commercial vehicles with a declared weight over 10,000 pounds pay fees based on the weight of the truck (a fee schedule was also approved). The new system also exempts trailers and semitrailers from vehicle registration and payment of the vehicle license fee.

Issue: A major component of SB 2084 was ensuring that the new system would remain revenue neutral. Section 1 of the bill reads:

“For purposes of this act, revenue neutrality requires that all recipients of the fees collected under the system in effect on December 31, 2000, shall receive the same level of funding, with the same degree of flexibility, after the conversion to the system created by this act.”

When SB 2084 passed, the agreement with industry was that the new program would remain revenue neutral and the state would not lose transportation revenues. Unfortunately this has not been the case. Since the new program was enacted, the state has lost approximately \$300 million in revenue (truck weight fees are deposited into the State Highway Account). Based on conversations with the Administration, the loss of revenue can be attributed to fewer vehicles paying the new weight fees.

The Administration is proposing trailer bill language to cleanup SB 2084, and to ensure that the revenue neutrality agreement is adhered to. The first version of the trailer bill proposed additional enforcement measures and fee increases to the existing weight schedule. In subsequent discussions with the Administration, the weight schedule may no longer need to be changed.

Staff Recommendation: There are issues that have yet to be resolved with the cleanup language. Staff recommends the Administration respond to the following questions:

- What is the status of the trailer bill language to cleanup SB 2084. Please report to the subcommittee on the Administration's proposal to correct the loopholes in statute. Specifically the subcommittee would like to know when the appropriate fee schedule will be determined. Also, SB 2084 required the department to review the new fee systems and report to the Legislature on DMV's findings to ensure revenue neutrality. The report was due January 1, 2003. What is the status of the report?
- Please respond the LAO's assertion that DMV delayed implementation of the GVW. The LAO should also be prepared to discuss this issue.
- In the area of enforcement, SB 2084 requires the CHP to complete a study to determine an effective approach to enforcing the provisions of the bill. The report is due July 1, 2003. Please share with the subcommittee your initial findings.

Staff recommends the subcommittee approve the trailer bill language.

Action:

2. *Various Fee Increases Proposed to Address Motor Vehicle Account Shortfall*

Background: As discussed in item 2720-California Highway Patrol, expenditures from the MVA continue to increase while revenues remain relatively stable. The LAO estimates that, under a worse-case scenario (i.e. no corrective action), the discrepancy between expenditures and revenues could grow to \$270 million in the 2003-2004 budget year.

The Administration proposes trailer bill language to implement various fee increases to address the projected revenue shortfall for the MVA. In total, these fee increases are intended to raise revenues by \$163 million in 2003-2004, and \$333 million annually. Listed below are the fee proposals, which will take effect in the upcoming budget year.

New MVA Fees	2003-2004 Projected Revenues (\$ in Thousands)	Ongoing Projected Revenues (\$ in Thousands)	Existing Fee	New Fee
Increase identification card fees for non-seniors. Seniors will now receive their cards free of charge.	\$8,745	\$19,000	\$6	\$20
Authorize Business Partner Automation Fee. This fee would apply to private firms for registering vehicles and performing other transactions on-site (of the private firm). The fee is authorized in statute but has never been implemented	\$1,950	\$2,000	\$2	\$3

Increase non-commercial drivers license fees for a five-year license.	\$30,100	\$67,000	\$15	\$24
Increase vehicle registration fees. Of this amount, \$4 would be dedicated to CHP officers.	\$94,850	\$190,000	\$30	\$37
Standardize various transaction fees.	\$15,500	\$31,000	\$2-\$15	\$15
Establish new penalties for failure to file transfer of title documents.	\$12,000	\$24,000	-	\$15
Totals	\$163,145	\$333,000	-	-

LAO Recommendation: The LAO raises an issue with the transfer of title fee proposal. Currently vehicle owners are required to notify DMV and pay a \$15 transfer fee whenever ownership of a vehicle changes hands. According to the LAO only 25 percent of these fees are collected because new owners are not aware of the notification requirement, or new owners do not report their transaction to the department. The LAO argues that it will be very difficult for DMV to track ownership changes and identify owners that are not in compliance. The LAO questions the department's ability to realize the projected revenues that are factored into this proposal.

Staff Recommendation: The fee proposals are necessary for one reason, to avert a shortfall in the MVA. There is no quantifiable data that supports raising these fees in response to increasing costs of the respective programs. For example, there is no data that indicates the costs for issuing and distributing identification cards has increased to \$20. If the Legislature does not approve these fees, departments such as CHP, DMV, and the Air Resources Board will have to implement ongoing reductions totaling \$330 million.

Given the limited options the subcommittee has with the fee proposals, staff recommends the following:

- Approve some or all of the fee increases and trailer bill language.
- Withhold action on the fee increases, and refer the trailer bill to Senate Transportation Committee.
- Deny the fee increases and direct staff to work with the Administration to identify budget-year reductions of \$163, and \$333 million in ongoing expenditures.

Action:

3. Online Vehicle Registration

Background: Three years ago the Legislature approved the Administration's proposal to implement an online vehicle registration system. As part of their original request the

Administration requested that the state pay the credit card convenience fee, however the Legislature denied this item from the proposal.

Although the program is still relatively new, it is arguable if usage of the online system has met initial projections. To help stimulate usage of the system, the budget proposes to eliminate the \$4 dollar credit card convenience fee charged to individuals who register online. The Administration argues that the convenience fee has suppressed both telephone and online credit card transactions that might otherwise be diverted away from field offices.

Issue: The timing of this proposal is somewhat questionable. Given the status of the MVA and other transportation funds, it is difficult to justify an augmentation to the program for the following reasons:

- The Administration is not able to provide a reasonable estimate or projection as to the state's costs for paying the convenience fee. The amount needed to pay the convenience fee could be anywhere from \$200,000 (thousand) to \$2 million.
- The Administration argues that this proposal will help reduce volume at the field offices, but there is no estimate as to how this proposal may or may not reduce costs.

Staff Recommendation: Staff recommends the subcommittee withhold action or deny this proposal. If the Administration can provide further data to support this proposal, the subcommittee may wish to reconsider this item at a later hearing.

Action:

Other Budget Issues

Staff Recommendation: No other issues have been raised with DMV's budget. Staff recommends the subcommittee approve the remainder of the department's budget as proposed.

Action:

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The state highway system comprises approximately nine percent of the total roadway mileage in California but handles approximately 54 percent of the miles traveled. The department also has responsibilities for congestion relief, transportation technology, environmental and worker protection, airport safety, and land use and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

The budget proposes total expenditures of \$6.4 billion, a decrease of \$673.5 million (9.5 percent) from the current-year budget.

Issues

1. Proposition 42 Suspension and the Traffic Congestion Relief Program

Background: The Administration proposes various fund shifts and transfers from transportation to the General Fund. In total, the Governor's re-financing proposal identifies nearly \$1.6 billion from transportation. Key provisions of the proposal include the following:

- Suspend the \$1.09 billion transfer of the sales tax on gasoline from the General Fund to the Transportation Investment Fund (TIF) for the 2003-04 fiscal year. The result of this action will eliminate \$678 million from the TCRP, \$147 to the State Transportation Improvement Program (STIP), \$147 million for local streets and roads, and \$74 million to the Public Transportation Account.
- Forgive the \$500 million General Fund loan repayment to the TCRP scheduled for the 2003-04 fiscal-year.

When this proposal was first presented in the December revision, the Administration indicated that the Transportation Commission (CTC) would work with locals to prioritize TCRP and STIP projects to ensure vital projects would continue to receive funding. Essentially the Administration was attempting to have locals pick and choose between their STIP and TCRP projects without providing sufficient revenues for both programs.

Subcommittee staff have spent a great deal of time analyzing this proposal and working with the Administration to understand the specific details. Although the Administration has presented this as a budget-year proposal, the suspension of Proposition 42 funds will have a significant effect on the long-term viability of the TCRP.

The loss of the sales tax revenues in the budget-year will leave the TCRP approximately \$1.2 billion short of the funds needed for the approved, and statutorily – endorsed, congestion relief projects. This is equivalent to approximately 25% of the funds promised for the program over its six years. The Governor's proposal suggests that these underfunded projects should compete

with other approved state and local transportation projects (in the STIP). Essentially, the situation would be one of too many projects chasing too few dollars.

The competition for remaining funding between TCRP and STIP projects would require the delay and/or abandonment of numerous transportation projects, especially in greater Los Angeles and the Bay Area, due to the concentration of TCRP projects in those two regions. The Department of Transportation and regional transportation agencies would have to reconstitute their respective transportation programs, either formally or informally. Project delays would increase the projects' ultimate costs while project abandonment would impede statewide mobility and increase congestion. The state would fall further behind in its attempts to maintain and expand the transportation infrastructure.

Issue: It is important for the Administration to explain to the subcommittee how the Prop 42 suspension will effect the TCRP in the budget year and beyond. If this proposal is in fact only intended to be a "single year" proposal, than what is the Administration's plan for dealing with the \$1.2 billion loss of sales tax funds? The Administration should also explain to the subcommittee what the contract close-out costs will be if these funds are permanently swept away, and discuss what the legal/liability costs will be for closing out the outstanding contracts.

Subcommittee staff believe there are alternatives to suspending the Proposition 42 transfer that will still enable the General Fund to achieve maximum savings. Subcommittee staff have asked the CTC and Caltrans to identify the cash-flow needs of the TCRP in the budget-year. Based on the data provided by the CTC and Caltrans, the outstanding allocations needed for the 2003-2004 budget-year are \$207 million. In order for the CTC to resume allocations, the Legislature would need to authorize an additional \$252 million in 2003-2004.

As an alternative to the Administration's proposal, subcommittee staff recommend the following:

- 1. Direct staff to develop trailer bill language to authorize a deferral of these funds. A deferral will allow the General Fund to achieve the savings proposed by the Administration, but still allow the Legislature to maintain its commitment to the TCRP by requiring a repayment of these transportation funds.**
- 2. Direct staff to identify a revenue source to fund the \$207 million needed for TCRP current project allocation in the budget-year. Some of these options include likely surplus funds in the Public Transportation Account or additional sales tax revenues on gasoline. The Administration will release these revenue projections in the May revision.**
- 3. Authorize the Administration to suspend (but not forgive) the \$500 million General Fund loan repayment to the TCRF. Current law requires the General Fund loan to be repaid by June 30, 2006.**

Action:

2. Department Proposes to Eliminate Significant Number of Positions

Issue: Caltrans proposes to eliminate a total of 1845.9 positions (1344.9 personnel years) in the 2003-2004 budget-year. Specifically the department proposes the following position reductions:

- | | |
|--|----------|
| • Expiring limited-term positions | -105.7 |
| • Expiring limited-term transportation permit positions | -15 |
| • Reduction in enhanced services to locals positions | -30.5 |
| • Elimination of Traffic Congestion Relief Program (TCRP) Positions | -1,223.7 |
| • Position reduction through attrition to generate State Highway Account savings | -471 |

The Administration argues that the positions associated with the TCRP are being eliminated due to the uncertainty surrounding the program. The 1,223.7 TCRP positions were authorized when the TCRP was created in statute. Caltrans is anticipating a decrease in workload demand in the likely scenario that TCRP projects are not carried forward. The Administration indicates it will restore a certain level of positions needed to deliver high-priority TCRP projects if alternative financing is identified to continue funding the TCRP.

The subcommittee will not have the official staffing proposal until the department submits the Capital Outlay Support (COS) finance letter at the May revision. Caltrans has to establish its capital outlay workload demand for the upcoming budget-year in order to determine its staffing needs. This process has put the Legislature in a position of having to make difficult decisions regarding state staff and contracting out positions in a very limited time frame. The subcommittee on average has less than one week to approve, modify, or deny the Administration's COS budget proposal.

LAO Recommendation: The LAO has prepared an extensive analysis of the COS budget process. The Analyst has identified several key issues and made recommendations for the subcommittee to consider. The subcommittee may wish to have the LAO report on these recommendations.

Staff Recommendation: Staff recommends the subcommittee direct Caltrans to identify what the staffing needs will be assuming funds for the current allocations are available (\$207 million). Staff also recommends the department discuss the future plan for the remaining positions associated with the TCRP.

Action:***Other Budget Issues***

The subcommittee has received numerous opposition letters to the Administration's proposal to delete funding for the Environmental Enhancement Mitigation Program (EEMP). The proposal calls for a reduction of \$10 million (State Highway Account) to the program. ***Staff recommends the subcommittee withhold action on this item until the May revision.***

Additionally staff recommends the subcommittee approve remaining items in Caltrans' budget as proposed.

Action: